

Message Text

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ACTION EB-07

INFO OCT-01 AF-06 EUR-12 ISO-00 CIAE-00 DODE-00 INR-07

NSAE-00 PA-01 USIA-06 PRS-01 SP-02 PM-04 NSC-05 SS-15

AID-05 COME-00 FRB-03 TRSE-00 XMB-02 OPIC-03 CIEP-01

LAB-04 SIL-01 OMB-01 STR-04 CEA-01 GSA-01 AGR-05 /098 W

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INFO AMEMBASSY MONROVIA

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LONDON FOR SEITZ

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TAGS: EGEN, ECON, SL

SUBJECT: END OF YEAR SL ECONOMIC PICTURE: GLOOMY

1. SUMMARY: PREVIOUSLY STAGNANT SIERRA LEONE ECONOMY ENDED 1975 WITH NOTICEABLE DECLINE AND POSSIBILITY OF SERIOUS CRISIS IN EARLY 1976. MAJOR FACTORS WERE POOR GOSL FINANCIAL MANAGEMENT, DECREASED INCOMING FROM MINING AND HIGH OIL PRICES. MINING REMAINS MOST IMPORTANT SECTOR OF MONETIZED ECONOMY AND LARGEST FOREX EARNER. INFLATION WAS SERIOUS PROBLEM WITH CONSUMER PRICE INDEX RISING ABOUT 21 PERCENT IN FIRST THREE QUARTERS OF 1975. NO NEW MAJOR INVESTMENT UNDERTAKEN IN THE COUNTRY IN LAST YEAR. END SUMMARY.

2. BALANCE OF PAYMENTS PROBLEMS INCREASED IN SEVERITY DURING YEAR. FOREIGN EXCHANGE RESERVES WERE DOWN BY END OF YEAR TO TWO MONTHS IMPORTS. GOSL REVOKED
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GENERAL IMPORT LICENSE SYSTEM IN NOVEMBER IN ATTEMPT

CUT OUTFLOW OF RESERVES, BUT LATER ALLOWED LOOSENING OF RESTRICTIONS. GOSL SEEMS TO LACK FIRMNESS REQUIRED TO DEAL WITH PROBLEMS. WITH EXPECTED DECREASED MINING EXPORTS, 1976 BALANCE OF PAYMENTS LIKELY TO BE SERIOUSLY NEGATIVE.

5. GOSL FACING SERIOUS DIFFICULTIES IN BOTH BUDGET AND DEBT SERVICING. IN NOV AND DEC GOSL WAS FORCED TO BORROW FROM COMMERCIAL BANKS AND DIAMOND CORPORATION IN ORDER TO MEET PAYROLL. HOPED FOR SHORT-TERM AID FROM LIBYA HAS FAILED TO MATERIALIZE. GOVERNMENT DEPARTMENTS UNABLE TO MEET LOCAL COMMITMENTS INCLUDING, IN SOME INSTANCES, THE PURCHASE OF PETROL FOR VEHICLES. IN DEC GOSL WAS UNABLE TO REPAY FULL AMOUNT DUE ON PROMISSORY NOTES TO ITALIAN FIRM. OTHER PAYMENTS MAY BE IN ARREARS ALSO. IN LATE DEC IMF DECLINED TO MAKE AVAILABLE FUNDS TOTALING \$9 MILLION UNTIL GOSL TAKES STEPS TOWARD IMPROVING SITUATION. BY END OF YEAR GOSL FACED NEED TO RESCHEDULE DEBTS OR DEFAULT. NO SCHEDULE OF MATURITIES AND AMOUNTS DUE SEEMS TO HAVE BEEN COMPILED. SOME GOSL LEADERS BELIEVE DEFAULT MAY BE PREFERABLE TO RESCHEDULING. GOVERNMENT MOVES FROM CRISIS TO CRISIS WITHOUT OVERALL PLAN.

3. MINING SECTOR: MOST IMPORTANT DEVELOPMENT IN MINING WAS VOLUNTARY LIQUIDATION OF DELCO IRON MINE AT MARAMPA IN OCTOBER, WHICH HAD ACCOUNTED FOR APPROXIMATELY 10 PERCENT OF EXPORTS. MINE CLOSURE ALSO INCREASED UNEMPLOYMENT. DIAMONDS REMAIN NUMBER ONE EXPORT BUT PRODUCTION DECLINING, AS GEM-BEARING DEPOSITS BEING DEPLETED. AFTER LONG NEGOTIATIONS, GOSL AND BETHLEHEM STEEL REACHED AGREEMENT DURING 1975 THAT WILL REVIVE MORIBUND RUTILE MINE BUT START UP OF RUTILE MINING HAS BEEN DELAYED BY PROBLEMS IN OBTAINING DREDGING EQUIPMENT. RUTILE PRODUCTION NOW EXPECTED TO BEGIN 1978. BAUXITE PRODUCTION CONTINUES AT STEADY LEVEL BUT COMPLAINTS ARE HEARD THAT SIERRA LEONE BAUXITE IS BEING SOLD BELOW WORLD PRICE BECAUSE OF CONTRACTS BETWEEN PARENT FIRM (ALUSUISSE) AND MINING SUBSIDIARY (SIERRA LEONE ORE LIMITED OFFICIAL USE

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AND METAL CO).

4. IN AGRICULTURE, RICE PRODUCTION IS THE ONE COMPARATIVE BRIGHT SPOT IN ECONOMY. IMPORTS OF RICE DECREASED SIGNIFICANTLY AS LOCAL PRODUCTION RESPONDED WELL TO PRICE INCREASE. EXPORT OF COFFEE, CACAO, GINGER, PALM OIL AND PIASSAVA CONTINUES ON SMALL SCALE. GOSL DID LITTLE TO EXPAND DEVELOPMENT OF AGRICULTURE

EXPORT IN 1975.

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